

### **Appendix 3**

#### **Generalized Rate Formula Used to Determine Pure Premium Rate**

PURE PREMIUM RATE<sup>1</sup> = (BASE COST) X (TREND FACTOR) X (INTEREST OFFSET)

1. BASE COST

Total cost of Medi-Cal dental services incurred and paid, or otherwise discharged during a specific period of time; plus the estimate for unpaid and incurred but unreported dental services liabilities.

2. TREND FACTOR

A factor that adjusts the incurred costs in the base period (experience data) to expected incurred costs in the rate period (contract period). This factor could include such items as fee trend, utilization trend, benefit changes, SMA changes, or any other items that could be expected to render the base data more actuarially equivalent to the expected incurred costs in the rate period. The various components in this factor would depend on the particular situations that affect the contract period.

3. INTEREST OFFSET

A factor, never to exceed one (1), that represents an interest adjustment to the base period incurred expenses. This interest factor will account for the fact that the State will make capitation payments prospectively to the Contractor instead of retrospectively to the providers. This will result in a loss of interest earnings to the State. This factor should be largely influenced by recent payment lag experience and interest rates.

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<sup>1</sup>

The Pure Premium Rate was split for Refugees and All Other Medi-Cal dental beneficiaries. In the initial and all subsequent years of underwriting, the Pure Premium Rate shall be developed separately for Refugees and All Other Medi-Cal dental beneficiaries using this formula. All Cost Reimbursement-Insured Dental Benefits Coverage (services and beneficiaries) is excluded from this formula.